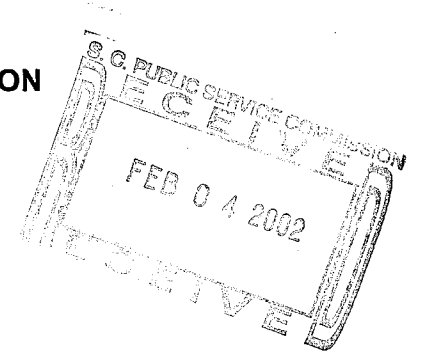


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STATE OF SOUTH CAROLINA
BEFORE THE PUBLIC SERVICE COMMISSION
DOCKET NO. 2000-0210-W/S

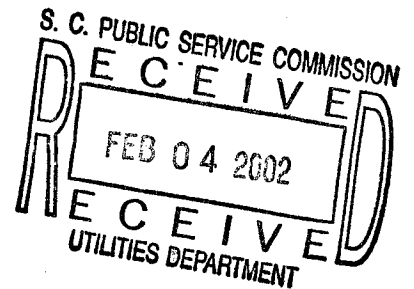
IN THE MATTER OF:

Application of United Utility Companies, Inc.
for an Adjustment of Rates and Charges for
Provision of Water and Sewer Service



SURREBUTTAL TESTIMONY OF

MICHAEL A. BLEIWEIS



ON BEHALF OF

THE CONSUMER ADVOCATE OF SOUTH CAROLINA

February, 2002

OK [Signature]
OK [Signature]

1 **Q. Mr. Bleiweis, have you reviewed the Pre-filed Rebuttal Testimony of**
2 **Steven M. Lubertozzi on Behalf of Applicant?**

3 **A. Yes, I have.**

4 **Q. Do you have any comments on this Rebuttal that you wish to present**
5 **to the Commission?**

6 **A. Yes, I do.**

7 **Q. Please present your comments on some of Mr. Lubertozzi's**
8 **criticisms.**

9 **A. First, on page 3 of his rebuttal, Mr. Lubertozzi suggests that in my Direct**
10 **Testimony I made "an out-of-context quote from an outdated edition of that**
11 **same treatise [the Phillips text]." I disagree that the quote on page 6 of my**
12 **Direct Testimony was taken out-of-context. At that point in my testimony, I**
13 **was discussing the basis for determining a revenue requirement. The**
14 **quote I utilized directly referred to that basis.**

15 **Second, the fact that I utilized an older text is not relevant to this or any**
16 **other proceeding. What is important is that both versions contained the**
17 **same text.**

18 **Third, Mr. Lubertozzi states his belief at page 3 that I am arguing "that the**
19 **Commission should abandon its traditional test year methodology..." At**
20 **no point in my testimony do I ever use the word "abandon," especially in**

1 reference to a test year methodology. I am merely suggesting to the
2 Commission that it consider another strategy for determining whether test
3 year data should be accepted for ratemaking purposes a methodology, I
4 might add, that is used in many other jurisdictions as a standard practice.

5 Fourth, the three-year historical period that I am recommending be utilized
6 is not "arbitrary" (page 3). It is based upon my informed judgment of over
7 twenty years of utility regulatory experience and practice. I chose a three-
8 year period, rather than, say, a five-year period, because that data holds
9 some relevancy to the current period. The older the data, the less
10 relevancy it might have to the current test year period. It also may not be
11 as representative of future periods. My choice was far from being
12 arbitrary.

13 Fifth, Mr. Lubertozi is incorrect in stating that the quote on page 5 of my
14 testimony is a "paraphrase." Rather, as I cite, it is a direct quote from
15 page 10 of Commission Order No.2001-887.

16 Sixth, Mr. Lubertozi (and perhaps) Mr. Phillips are entirely incorrect that
17 "known changes...are only changes **during and after** the test year, and
18 not prior to the test year." (Emphasis added) As I have stated above, it is
19 common regulatory practice to look to the past to determine if test year
20 data is "normal," and representative of future periods. It is exactly the
21 point of my testimony to show that test year data may not be normal, and
22 representative of future periods.

1 Seventh, it is certainly not inconsistent for me to state that the test year
2 data is stale and then to use prior years' data in order to make
3 adjustments. Mr. Lubertozzi does not understand the efficacy of using the
4 most current data available in order to determine rates. Even if calendar
5 year 2001 data were utilized in a present proceeding, it would still be
6 proper to look at past data to determine if the company's proposed rates
7 are just and reasonable. Also, it is not necessary that just calendar year
8 data be utilized as a test year. I have participated in many proceedings
9 with utilities that had a calendar year fiscal year but used some other
10 twelve-month period for ratemaking purposes.

11 Eighth, there is no "fallacy" in my approach of examining only increases in
12 expenses over a three-year period. As an advocate, my job is to point out
13 to the Commission why I believe test year expenses are not
14 representative of expenses that may occur in the future. If Mr. Lubertozzi
15 does not agree with this approach, then he could have offered an
16 alternative in his rebuttal, such as a listing of expenses that have
17 decreased, but he chose not to do so.

18 Ninth, the ultimate fallacy in Mr. Lubertozzi's position is shown in his
19 comment on page 8 which states that "... instead of considering a utility's
20 expenses in a test year as a basis for its future forecast of utility expense,
21 the Commission would have to examine each claimed expense over some
22 number of prior years to reach a determination of allowable expenses." It
23 is, of course, the exact purpose of this proceeding for the Commission to

1 determine the relevancy of every penny of the company's claims. The
2 company would rather have us accept its test year data as filed, without
3 question, but that is not how regulation works and is not how consumers
4 are protected.

5 **Q. Mr. Bleiweis, do you have some concluding comments?**

6 A. Yes. First, I would like to emphasize to the Commission, that my test year
7 adjustments did not simply take a three-year average of expenditures that
8 increased each year. That would not be proper ratemaking. Rather, I am
9 recommending adjustments for several different reasons: (1) extraordinary
10 occurrences, such as Legal Fees; (2) fluctuations in expense levels up
11 and down over the three-year period, such as Salaries Charged to Plant-
12 WSC; (3) consistency in prior year expenses followed by a large increase
13 in test year expense, such as Temporary Employees-Clerical; (4)
14 increases well above the rate of inflation not explained by the company,
15 such as Computer Supplies; and (5) expenditures during the test year
16 which did not occur during the past two years, such as Water Main
17 Breaks. From this list, it can certainly be seen that the company's
18 argument that my recommended adjustments are "arbitrary" is without
19 merit.

20 Second, in this proceeding, as well as that for Carolina Water Service, the
21 company would prefer that the Commission accept the test year as
22 presented, rather than question its efficacy. However, such a procedure

1 would not allow the Commission to properly determine if the company's
2 proposed rates meet the standard of "known and measurable."

3 Lastly, the company would have us believe that Commission policy is set
4 in stone; that it is somehow improper for a party to suggest an alternative
5 methodology of determining the propriety of a utility's proposed rates.
6 However, because, water utilities, unlike other utilities, will remain a
7 monopoly for the foreseeable future, it is especially incumbent upon the
8 parties to challenge each and every claimed expenditure in order to
9 determine whether such expenditures are beneficial to customers. In my
10 opinion, only in this way can the Commission determine if the company's
11 rates meet the overriding standard of being just and reasonable.

12 **Q. Does this conclude your Surrebuttal Testimony?**

13 **A.** Yes, it does.